

CITY OF MIAMI GARDENS, FLORIDA

BASIC FINANCIAL STATEMENTS

FROM MAY 13, 2003 (INCEPTION)
TO SEPTEMBER 30, 2003

Prepared by:

THE FINANCE DEPARTMENT

CITY OF MIAMI GARDENS, FLORIDA

BASIC FINANCIAL STATEMENTS

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TO SEPTEMBER 30, 2003

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INTRODUCTORY SECTION

CITY OF MIAMI GARDENS, FLORIDA

CITY OFFICIALS

SEPTEMBER 30, 2003

CITY COUNCIL

Shirley Gibson, Mayor
Aaron Campbell Jr., Vice Mayor

Audrey J. King
Barbara Watson
Melvin L. Bratton
Sharon Pritchett
Oscar Braynon

CITY MANAGER

Dr. Danny O. Crew

CITY CLERK

Ronetta Taylor, CMC

CITY ATTORNEY

Sonja K. Knighton
James C. Brady & Associates

FINANCE DIRECTOR

Christopher Wallace, New Community Strategies

CITY AUDITORS

Rachlin Cohen & Holtz LLP
Accountants • Advisors

FINANCIAL SECTION

**REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor, City Council and City Manager
City of Miami Gardens, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Miami Gardens, Florida (the City) as of and for the period from May 13, 2003 (inception) to September 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinions, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Miami Gardens, Florida as of September 30, 2003 and the respective changes in financial position, thereof for the period from May 13, 2003 (inception) to September 30, 2003 in conformity with accounting principles generally accepted in the United States.

As described in Note 1 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments*. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 6, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Honorable Mayor, City Council and City Manager
City of Miami Gardens, Florida
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Management's discussion and analysis and the budgetary comparison information on pages 3 through 9 and pages 24 through 25, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion thereon.

Rachlin Cohen & Holtz LLP

Miami, Florida
October 6, 2004

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)**

Management's Discussion and Analysis

FINANCIAL MANAGEMENT DISCUSSION AND ANALYSIS

The City of Miami Gardens, Florida, (the "City") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the City's financial statements (beginning on page 10).

The City was incorporated May 13, 2003, under the Charter and Laws of Miami-Dade County (the "County"). The County must approve all new incorporations and annexations. The County also largely determines the framework, service provisions or service denials, continuing obligations, and powers and duties of the City. Florida Law determines the City and the County's fiscal years. The fiscal year begins October 1st of each year and ends September 30th of the next year. This financial statement presentation represents a partial fiscal year that ran from May 13th to September 30th of 2003. Virtually all of the financial information contained in the City's partial years' financial statement results from the budget and terms and conditions that were set as part of the City's incorporation. Some of the conditions of the incorporation of the City included an understanding that the City and the County would operate under an interim interlocal agreement for the partial fiscal year and a transitional interlocal agreement that would cover the period of time beginning October 1, 2003, and end at an agreed to time in the future, at which point the City would have taken over the provision of certain services from the County. The transitional agreement would contemplate a timeframe that would permit an orderly transfer of services. That agreement would also provide for the transition and accounting of revenues and expenditures that the County and City would negotiate. Both the interim and transitional agreements were not completed until September 2004. At that time, the City and County agreed to certain terms and conditions that would detail the rights and obligations of both parties. The City did not have a position of strength during these negotiations.

Because of the delay in completing the negotiations of the interim and transitional interlocal agreements, both parties agreed to a settlement amount for FY2003. The financial statements herein reflect the activity of the City for the interim period and the settlement amounts agreed to in September 2004. Readers of these financial statements should use caution in drawing any conclusions about the City's Statement of Net Assets and Statement of Activities. Management does not believe they reflect any meaningful data that would allow readers to understand anything other than the City's revenues and expenses that it recorded during the interim period and the net assets that resulted from the final agreements reached in a subsequent period. The FY2004 budget was largely determined by the taxes levied by the County since the City would

not be able to levy its own property tax rate until FY2005. Likewise, management believes that when FY2004 has concluded, it also will not reflect very meaningful financial information about the City. It is management's belief that FY2005 will be the first year that will contain any meaningful information about the City's financial operations and the level of service that it provides its residents and businesses.

Financial Highlights

The City finished its interim period fiscal year with Net Assets of \$2,027,427, of which \$1,643,212 represents the amount attributable to the General Fund activities. The balance of \$328,321 represents amounts received for gas tax programs and projects. The City had been advanced \$300,000 by the County to cover the expected cash flow needs of the City during the interim period. The City originally was expected to repay the advance in FY2004. However, as part of the interlocal agreements finally adopted by the City and the County in FY2004, the advance was forgiven. Consequently, it was recorded as a revenue for FY2003.

The City's revenues that were recorded for FY2003 were almost entirely the result of State of Florida shared revenues that were paid or owed directly to the City. State Revenue Sharing and the City's share of the Half-Cent Sales Tax distribution accounted for all of the shared revenues from the State. A portion of the State Revenue Sharing is restricted to transportation related projects or programs and is recorded in the Transportation Special Revenue Fund.

The City did not have any business-type activities for FY2003.

The City's had no long-term debt as of September 30, 2003.

Virtually all of the City's expenses were for the administration of the City during the interim period, including estimated non-recurring start up expenses of approximately \$25,000. The City put into service \$27,947 of fixed assets, primarily office furniture and computers. The City currently leases its office space. The City did not make any expenditures during the interim period for transportation related projects or programs. Consequently, all funds received or owing to the City for the purpose of transportation related projects or programs remains legally restricted for future years' use.

City Achievements

After years of discussion and study, Miami-Dade County incorporated the City, bringing its approximately 102,000 residents a level of government that is hoped to be more responsive to the community. Many of the members of the incorporation committee were elected to 4-year terms of office. They are all long-time residents who are extremely motivated and organized to improve their community. Their leadership during the next few years will be extremely valuable in setting the foundation under which the City will operate.

The City of Miami Gardens began adopting the local laws under which taxes and other revenues will be levied. Both State law and practical considerations will dictate the timing of the receipt

of these revenues. Nonetheless, important initial steps were undertaken during the interim period.

The City continued negotiations with the County on the terms and conditions of its interim, transitional, and final interlocal agreements on revenues and services. Though the County has the power to dictate the terms and conditions of incorporation, the City was organized well enough politically to forestall the execution of these documents until they could be negotiated in a fairer manner with the City. These negotiations continued well into FY2004 and were finalized in the last month of that fiscal year. By maintaining a unified and consistent political front during this period, the City gained a reputation that will serve it well in future years.

The City, during this interim period, quickly developed a central contact point for its residents and businesses and began the process of hiring key personnel.

Overview of the Financial Statements

The financial statement focus is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to assess the particulars of the City's financial operations and also provide for annual comparisons of the City's financial performance. The statements can also facilitate comparisons with other units of government. The City began operations in May of 2003; therefore, no comparison is made for any previous year. The FY2004 financial statements will likely be markedly different from those presented here.

Government-wide Financial Statements

The Government-wide Financial statements (see pages 10 to 11) are designed to be corporate-like in that all governmental and business-type activities (though the City as yet does not operate any business-type activities) are consolidated into columns that add up to a total for the Primary Government. The focus of the Statement of Net Assets (the "Unrestricted Net Assets") is designed to be similar to bottom line results for the City and its governmental and business-type activities. This statement combines and consolidates government funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The Statement of Activities (see page 11) is focused on both the gross and net cost of various activities (including governmental, including component units and business-type), which are supported by the City's taxes and other revenues. This is intended to summarize and simplify the user's analysis of the cost of various governmental services and/or subsidy to various business-type activities and/or components.

The Government Activities reflect the City's basic services, which, for FY2003, are merely the basic political and administrative expenses associated with the startup of the City's operations. Future budgets will reflect the full range of municipal services, except for fire protection, utilities, and specialized police services, which, by Charter, will forever remain with the County. For this interim fiscal period, the City financed its operations with a contribution from the

County, and intergovernmental revenue from the State of Florida. All other municipal services were provided by the County during the interim period and were continued through a transitional period that extended beyond FY2004.

Fund Financial Statements

Traditional users of government financial statements will find the Fund Financial Statement presentations more familiar. The focus in those statements is on Major Funds.

The City's Major Fund (see pages 12 to 13) presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the Fund Financial Statements allow the demonstration of sources and uses and/or budgeting compliance associated therewith (beginning on page 22). During this initial abbreviated fiscal period, the City had only two funds, the General Fund and the Transportation Fund, both considered Major Funds. It is expected that this structure will change in the immediate future.

The Government Major Funds Total column requires reconciliation because of the different measurement focus (current financial resources versus total economic resources) that is reflected on the page following each statement. The flow of current financial resources will reflect interfund transfers and other financial sources, as well as capital expenditures. The reconciliation will eliminate these transactions and incorporate the capital asset and long-term obligations into the Government Activities column (in the Government-wide statements).

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure – buildings, roads, curbs, sidewalks) have not been reported nor depreciated in government financial statements. New pronouncements in governmental accounting standards require that these assets be valued and reported within the Government column of the Government-wide Statements. The City had no infrastructure assets to report as of September 30, 2003. The County transferred substantial infrastructure to the City during the subsequent fiscal period.

GOVERNMENT-WIDE STATEMENTS

Statement of Net Assets

The largest portion of the City's net assets are the receivables due from the State of Florida for shared revenues accrued but not received by year-end. Cash accounted for a little less than one-fourth of the City's Net Assets, while its investment in fixed assets, primarily furniture and computers, contributed approximately \$28,000 to the total Net Assets of \$1,999,480.

The Unrestricted Net Asset balance is intended to be a corporate-style measurement of well-being (or a bottom line) for the City and its related governmental and business-type activities.

Conditions and Impacts That Can Affect the City's Financial Operations

Many factors and conditions can influence the current and long-term finances of the City:

Conditions of Incorporation. Miami-Dade County enjoys powers vested to it by Florida's Constitution. Miami-Dade County was created as a consolidated form of government wherein the County was to provide municipal services in addition to those services traditionally provided by Florida counties. In the creation or dissolution of municipal charters, the County acts in the capacity normally exercised by the State. The County has the ability to create and dissolve most municipalities located within its boundaries. In the creation of any municipality, the County likewise can burden the City with conditions that may be onerous or uncompetitive. In the creation of the City's Charter, the County has required the City to continue to pay for specialized police services in perpetuity under a formula determined by the County. Because this formula is applied against a budget adopted by the County, the City essentially has little control over this cost. The City is also required to utilize the County's police services for the next few years and the cost of this service is likewise largely outside of the City's control. The City cannot provide other services such as utilities and the City must rely upon other entities for their availability. Some of these services, such as water and sewer, may affect the City's ability to attract development and redevelopment.

Limits On Tax Base Growth. Under Florida's Constitution, residential properties that are owner-occupied and have a homestead exemption are limited to annual assessment increases of 3% or less. The effect of this limitation burdens the City's tax base by exempting from taxation large portions of residential properties. The South Florida housing market has experienced substantial increases in the value of residential properties. The City, as well as other taxing authorities, cannot capture this increase in the tax base. Typically, municipalities in the South Florida market experience increases in annual expenditures well in excess of this 3% cap. Consequently, the City will be challenged to diversify its tax base while keeping its expenditures under control. The City has the ability to tax property up to 10 mills, or \$1 for each \$1,000 of taxable value. It is not anticipated that the City will reach that tax rate cap anytime soon. Management expects that most of its tax rate capacity will be unused for several years.

Economic Conditions. The City is located in South Florida. Demand for residential and commercial property has been very strong for several years. Demand for housing has increased substantially and this trend is expected to continue for some time. The City is largely built-out, but there is a fair amount of vacant land left for development. Additionally, the City will likely face redevelopment opportunities that could positively impact the City's long-term financial outlook. The City is strategically located between the Miami and Fort Lauderdale markets and is at the crossroads of the area's major trafficways. Tempering this potential, however, is the problem of providing affordable housing to families in a real estate market that has been and will continue to experience double-digit annual increases. A large portion of the City's housing stock was constructed over 30 years ago. The area has been largely neglected over the years and the City expects to spend considerable effort and money in improving community conditions. This should help the City's tax base.

Introduction of New Programs. One of the impetuses for creating the City was the dearth of responsive services in the Community. Code enforcement and recreational opportunities have been particular areas of local concern and it is almost certain that the City will quickly expand its service delivery to its residents and businesses. The City will be tasked with maintaining its low tax rate while controlling the cost of delivering these services.

Personnel Costs. The cost of attracting and keeping experienced and competent personnel in South Florida has dramatically increased over the last two decades. The City will have to compete with the roughly 90 municipalities that exist in Miami-Dade, Broward, and Palm Beach counties. The level and amount of benefits offered to employees in this market is substantial and the employer contributions for these benefits are typically very high. As the City expands its services, it will face continual pressure on these costs.

Inflation. While overall inflation appears to be reasonably modest, the City is and will be exposed to certain costs that historically been much higher than the consumer price index typically used to measure inflation. Chief among these costs are insurances and wages. Reduced inflation rates generally mirror reduced interest rates. Currently, investment options available to the City pay very little investment income.

THE CITY FUNDS

Governmental Funds

As of the year-end, the Governmental Funds (as presented on the balance sheet) reported a combined fund balance of \$1.97 million. This balance should not be viewed as anything other than the result of a subsequent years' negotiation and settlement of issues with the County. It is expected that the next few years of the City's operations will result in a slight growth of the City's Fund Balance.

Business-type Funds

Currently, the City does not have any Business-type funds.

Budgetary Results

The City had developed an interim period budget that came about from the unincorporated area study. Budgetary performance is not considered meaningful by management for this interim period.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year-end, the City had approximately \$28,000 in Capital Assets entirely comprised of furniture and computers acquired for general governmental purposes. There were only additions to Capital Assets because the City was newly incorporated.

Debt

The City had no debt or other obligations outstanding at year-end. It is expected that the City will have debt or other obligations in subsequent periods.

FINANCIAL INFORMATION CONTACTS

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have any questions about the report or need additional financial information, contact the City's Finance Director at 1515 N.W. 167th Street, Suite 201, Miami Gardens, Florida 33169 or call (305) 622-8000.

BASIC FINANCIAL STATEMENTS

CITY OF MIAMI GARDENS, FLORIDA

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2003

	Governmental <u>Activities</u>
<u>ASSETS</u>	
Cash	\$ 558,970
Other receivables	1,407,563
Prepays	5,000
Capital assets	<u>27,947</u>
Total assets	<u>\$ 1,999,480</u>
 <u>NET ASSETS</u>	
Invested in capital assets	\$ 27,947
Unrestricted	<u>1,971,533</u>
Total net assets	<u>\$ 1,999,480</u>

See notes to basic financial statements.

CITY OF MIAMI GARDENS, FLORIDA

STATEMENT OF ACTIVITIES

FROM MAY 13, 2003 (INCEPTION)
TO SEPTEMBER 30, 2003

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	
	<u>Expenses</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Activities</u>	<u>Total</u>
Governmental activities:					
General government	\$ 70,017	\$ -	\$ -	\$ (70,017)	\$ (70,017)
Non-departmental	94,223	-	-	(94,223)	(94,223)
Total governmental activities	<u>\$ 164,240</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(164,240)</u>	<u>(164,240)</u>
General revenues:					
Utility taxes				300,000	300,000
Intergovernmental				1,863,566	1,863,566
Unrestricted investment earnings				154	154
Total general revenues				<u>2,163,720</u>	<u>2,163,720</u>
Change in net assets				1,999,480	1,999,480
Net assets - beginning				-	-
Net assets - ending				<u>\$ 1,999,480</u>	<u>\$ 1,999,480</u>

See notes to basic financial statements.

CITY OF MIAMI GARDENS, FLORIDA

BALANCE SHEET GOVERNMENTAL FUNDS

SEPTEMBER 30, 2003

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash	\$ 558,970	\$ -	\$ 558,970
Other receivables, net	1,407,563	-	1,407,563
Due from general fund	-	328,321	328,321
Prepays	5,000	-	5,000
Total assets	<u>\$1,971,533</u>	<u>\$328,321</u>	<u>\$ 2,299,854</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Due to special revenue fund	\$ 328,321	\$ -	\$ 328,321
Total liabilities	<u>328,321</u>	<u>-</u>	<u>328,321</u>
Fund balances:			
Unreserved reported in:			
General fund	1,643,212	-	1,643,212
Special revenue fund	-	328,321	328,321
Total fund balances	<u>1,643,212</u>	<u>328,321</u>	<u>1,971,533</u>
Total liabilities and fund balances	<u>\$1,971,533</u>	<u>\$328,321</u>	
 Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			<u>27,947</u>
Net assets of governmental activities			<u>\$ 1,999,480</u>

See notes to basic financial statements.

CITY OF MIAMI GARDENS, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FROM MAY 13, 2003 (INCEPTION)
TO SEPTEMBER 30, 2003

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues:			
Utility taxes	\$ 300,000	\$ -	\$ 300,000
Intergovernmental	1,535,245	-	1,535,245
Interest	154	-	154
Other	-	328,321	328,321
Total revenues	<u>1,835,399</u>	<u>328,321</u>	<u>2,163,720</u>
Expenditures:			
Current:			
General government	70,017	-	70,017
Non-Departmental	<u>122,170</u>	<u>-</u>	<u>122,170</u>
Total expenditures	<u>192,187</u>	<u>-</u>	<u>192,187</u>
Excess of revenues over expenditures	<u>1,643,212</u>	<u>328,321</u>	<u>1,971,533</u>
Net change in fund balances	1,643,212	328,321	1,971,533
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$1,643,212</u>	<u>\$328,321</u>	<u>\$ 1,971,533</u>

See notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF MIAMI GARDENS, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

FROM MAY 13, 2003 (INCEPTION)
TO SEPTEMBER 30, 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Miami Gardens, Florida (the City), located in Miami-Dade County, Florida, is a municipal corporation in the State of Florida. The City, which was incorporated on May 13, 2003, by Miami-Dade County (the County), operates under a Mayor/Council/Manager form of government. In addition to the general government function, the City provides its residents and businesses with police, parks and recreation, public works, and development (building, planning and zoning, code enforcement) services. The City operated under a tentative interim agreement with the County from May 13, 2003 (inception) to September 30, 2003. During the interim period, the City provided legislative and executive functions and the County continued to provide the municipal services that had existed and been provided by the County under its Unincorporated Municipal Service Area (UMSA) budget. The interim period understanding continued through much of the subsequent fiscal year and was finalized in September 2004 (see Note 8 – Subsequent Events).

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. For the period ended September 30, 2003, the City followed the accounting and financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Omnibus, an amendment of GASB Statements No. 21 and 34; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments. The more significant of the City's accounting policies are described below:

A. Financial Reporting Entity

The financial statements were prepared in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, which establishes standards for defining and reporting on the financial reporting entity. The definition of the financial reporting entity is based upon the concept that elected officials are accountable to their constituents for their actions. One of the objectives of financial reporting is to provide users of financial statements with a basis for assessing the accountability of the elected officials. The financial reporting entity consists of the City, organizations for which the City is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City is financially accountable for a component unit if it appoints a voting majority of the organization's governing board and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. Based upon the application of these criteria, there were no organizations that met the criteria described above.

CITY OF MIAMI GARDENS, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The City does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting.

Taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF MIAMI GARDENS, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The *Special Revenue Fund* accounts for the revenues received from the transportation surtax and expenditures for related transportation costs.

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The City had no operating or capital grants and contributions during the period.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

The City's cash includes cash on hand and demand deposits.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

3. Capital assets

Capital assets, which include property, plant and equipment, and certain infrastructure assets (e.g., utility plant, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost or component of more than \$2,500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed. No such costs were capitalized in 2003.

CITY OF MIAMI GARDENS, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Capital assets (Continued)

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture and equipment	3-10

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts of assets, liabilities, disclosures of contingent liabilities, revenues and expenditures/expenses reported in the financial statements and accompanying notes. These estimates include assessing the collectibility of receivables and the useful lives of capital assets. Although these estimates as well as all estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

5. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. There were no reservations of fund balance.

NOTE 2. DEPOSITS

Deposits

In addition to insurance provided by the Federal Depository Insurance Corporation, all deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. Accordingly, all amounts reported as deposits are insured or collateralized with securities held by the entity or its agent in the entity's name.

CITY OF MIAMI GARDENS, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 3. RECEIVABLES

Receivables as of September 30, 2003 for the City's individual major funds, including the allowances for uncollectible accounts, are as follows:

	<u>General</u>
Intergovernmental	\$ 1,407,563
Less allowance for uncollectibles	-
Net receivables	<u>\$ 1,407,563</u>

NOTE 4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of September 30, 2003 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due from/to other funds:		
Special revenue	General Fund	<u>\$ 328,321</u>

NOTE 5. PROPERTY TAXES

Property values are assessed on a countywide basis by the Miami-Dade County Property Appraiser as of January 1st, the lien date, of each year and are due November 1st of the same year. The Property Appraiser certifies taxable value of property within the City and the City levies a tax millage rate upon the taxable value, which will provide revenue required for the fiscal year beginning October 1st. Property taxes levied each November 1st by the City and all other taxing authorities within the County are centrally billed and collected by the County Tax Collector, with remittances to the City of its proportionate share of collected taxes. Taxes for the fiscal year beginning October 1st are billed in the month of November subject to a 1% per month discount for the period November through February, and are due no later than March 31st of the subsequent year. On April 1st, unpaid amounts become delinquent with interest and penalties added thereafter. Beginning June 1st, tax certificates representing delinquent taxes with interest and penalties are sold by Miami-Dade County, with remittance to the City for its share of those receipts. For the reported period, the City did not levy any property taxes of its own. Instead, under the terms of the incorporation by the County, the City was to operate under interim and transitional period agreements that ultimately were settled with interlocal agreements entered into subsequent to year-end (see Note 8).

CITY OF MIAMI GARDENS, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2003 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental activities:				
Capital assets, being depreciated:				
Furniture, fixtures and equipment	\$ -	\$ 27,947	\$ -	\$ 27,947
Total capital assets, being depreciated	<u>\$ -</u>	<u>\$ 27,947</u>	<u>\$ -</u>	<u>\$ 27,947</u>

There was no depreciation expense in the current year.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Outstanding Incorporation Issues

As conditions attached by the County during incorporation, the City was to have entered into interlocal agreements with the County for the interim period from the date of inception (May 13, 2003), to the period of a subsequent agreement that would be executed at a time when elected and appointed officials had begun to organize the City's operations. At year-end, neither agreement had been executed by either party. As a result, significant outstanding issues involving the City and the County's financial obligations and commitments were unresolved. Subsequent to year-end, the City and the County entered into various interlocal agreements that substantially resolved most of the issues outstanding at year-end (see Note 8).

Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the City carries commercial insurance.

NOTE 8. SUBSEQUENT EVENTS

Second Interlocal Agreement With Miami-Dade County for Municipal Services and Establishment of Costs of Those Services, R-2004-68-119

In August 2004, the City and the County entered into an interlocal agreement that established the continuity of County provided municipal services to the City at such time as the City wished to assume those services. The interlocal agreement established the cost of services provided by the County and established a timetable for an orderly transition of County-provided municipal services. The interlocal agreement agreed to and clarified other issues including the payment for municipal services and the transfer of municipal revenues that had been collected by the County on behalf of the City. The agreement further provides for the following payments to the County by the City for the providing of municipal services by the County to the City for the period of May 13, 2003, to September 30, 2004:

CITY OF MIAMI GARDENS, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 8. SUBSEQUENT EVENTS (Continued)

Second Interlocal Agreement With Miami-Dade County for Municipal Services and Establishment of Costs of Those Services, R-2004-68-119 (Continued)

- \$7,447,265 Due to Miami-Dade County on or before December 1, 2004, from the City's General Fund
- \$1,045,450 Due to Miami-Dade County on or before December 1, 2004, from the City's Transportation Fund.
- \$351,830.20 due to Miami-Dade County each September 1st for 10 years beginning September 1, 2005, and ending September 1, 2015.

Interlocal Agreement With Miami-Dade County Providing For Local Police Services to the City, Resolution R-2004-69-120

In August 2004, the City entered into an interlocal agreement with Miami-Dade County for the provision of Local Police Services to the City by the County. Under the Master Interlocal Agreement with the County, in part described above by R-2004-68-119, the City is obliged to continue Local Police Services with the County through May 13, 2007. The City must pay \$17,835,443 for the 12-month period beginning October 1, 2005. The City budgeted for this obligation in its FY2005 budget. Subsequent period amounts are determined by a methodology detailed in the resolution.

Interlocal Agreement With Miami-Dade County For Perpetual Provision of Specialized Police Services, Resolution R-2004-70-121

In August 2004, the City entered into an interlocal agreement mandated by Miami-Dade County wherein the City must annually and in perpetuity pay the County for Specialized Police Services. The cost of the service to the City is based upon a formula provided for in the Resolution that is primarily determined by Specialized Police Services activity, workloads level, and population of the City. The County requires this agreement of all newly incorporated municipalities. Existing municipalities do not pay this fee and the City expects to expend efforts in the future to eliminate this agreement. The cost to the City for these services for FY2005 is estimated to be \$6,670,437 and has been budgeted for by the City in its FY2005 budget.

Interlocal Agreement With Miami-Dade County Providing For the Transfer of Certain Road To The City, Resolution R-2004-72-123

In August 2004, the City entered in an interlocal agreement with Miami-Dade County wherein the County transferred certain public roads within the City to the City. The City accepted all legal rights, responsibilities, and obligations related to the roads. The value of the roads had not been determined at the time of the agreement, but management expects the roads will be recorded at several millions of dollars, net of accumulated depreciation, and will add significantly to the City's net assets.

CITY OF MIAMI GARDENS, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 8. SUBSEQUENT EVENTS (Continued)

Interlocal Agreement With Miami-Dade County Providing For the Transfer of Certain Parks to the City, Resolution R-982-04 (Miami-Dade County)

In September 2004, Miami-Dade County transferred to the City fourteen parks previously owned by the County. The value of the Parks had not been determined at the time of the agreement, but management expects the parks will be recorded at several millions of dollars, net of accumulated depreciation, and will add significantly to the City's net assets.

City's Obligation to Repay Its Share of County's Outstanding Debt, Resolution R-2004-68-119

As part of the Master Interlocal Agreement with the County, and as a condition to incorporation, the City is obliged to repay its share of certain County debt instruments that had been issued for improvements to the unincorporated areas of the County. The County had pledged certain revenues in support of those debt instruments. The restrictive covenants of those debt instruments prohibit the County from releasing the pledged revenues until the obligations have been paid in full. The City can prepay at any time its share of the outstanding debt and thus have its revenues streams released from this encumbrance. Until that time, the City is required to let the County continue to receive those revenue streams and then forward to the City the difference between what was collected and what was paid as the City's share of the outstanding debt. The City's Public Service Tax on utility service will first go to the County to pay the debt service and related costs of the County's *Public Service Tax Revenue Bonds, Series 1999 and Series 2002*. The County will then forward the remainder to the City. The City's Stormwater Assessments will continue to be paid directly to the County until the County's *Stormwater Utility Revenue Bonds, Series 1999*, mature. The City's FY2005 budget contemplates the net revenues within its framework.

REQUIRED SUPPLEMENTARY INFORMATION
(Other Than MD&A)

CITY OF MIAMI GARDENS, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

FROM MAY 13, 2003 (INCEPTION)

TO SEPTEMBER 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Utility taxes	\$ 300,000	\$ 300,000	\$ 300,000	\$ -
Intergovernmental	500,000	500,000	1,535,245	1,035,245
Interest	-	-	154	154
Total revenues	<u>500,000</u>	<u>500,000</u>	<u>1,835,399</u>	<u>1,335,399</u>
Expenditures:				
Current:				
General government:				
Elected officials	38,080	38,080	22,471	15,609
City Clerk	-	-	250	(250)
Administration	38,773	38,773	41,858	(3,085)
City Attorney	15,582	15,582	5,438	10,144
Non-Departmental	<u>187,127</u>	<u>187,127</u>	<u>122,170</u>	<u>64,957</u>
Total expenditures	<u>279,562</u>	<u>279,562</u>	<u>192,187</u>	<u>87,375</u>
Excess of revenues over expenditures	<u>\$ 220,438</u>	<u>\$ 220,438</u>	<u>\$ 1,643,212</u>	<u>\$ 1,422,774</u>

See notes to budgetary comparison schedule.

CITY OF MIAMI GARDENS, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO BUDGETARY COMPARISON SCHEDULE

**FROM MAY 13, 2003 (INCEPTION)
TO SEPTEMBER 30, 2003**

NOTE 1. BUDGETS AND BUDGETARY ACCOUNTING

An annual appropriated budget is prepared for the general fund.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- (a) The City Manager submits to the Council a proposed operating budget for the ensuing fiscal year. The operating budget includes appropriations and the means of financing them with an explanation regarding each expenditure that is not of a routine nature.
- (b) Public hearings are conducted to obtain taxpayer comments.
- (c) Prior to October 1, the budget is legally enacted through passage of an ordinance.
- (d) The City Council, by motion, may make supplemental appropriations for the year up to the amount of revenues in excess of those estimated. During fiscal year ended September 30, 2003, there were no supplemental appropriations.
- (e) Formal budgetary integration is employed as a management control device for the general fund.
- (f) The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).
- (g) For this inception period, the adjusted budget was the result of the incorporation agreement.

NOTE 2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended September 30, 2003, expenditures exceeded appropriations in City Clerk by \$250 and administration by \$3,085. These excesses were funded by greater than anticipated revenues.

COMPLIANCE SECTION

**Report of Independent Certified Public Accountants on Compliance and Other Matters and on
Internal Control over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Honorable Mayor, City Council and City Manager
City of Miami Gardens, Florida

We have audited the financial statements of the governmental activities and each major fund of the City of Miami Gardens, Florida (the City) as of and for the period from May 13, 2003 (inception) to September 30, 2003, which collectively comprise the City's basic financial statements, and have issued our report dated October 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 03-1.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Mayor, City Council and City Manager
City of Miami Gardens, Florida
Page Two

This report is intended solely for the information and use of the Mayor, City Council, management and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Rachlin Cohen & Holtz LLP

Miami, Florida
October 6, 2004

Management Letter in Accordance with the Rules of the Auditor General of the State of Florida

Honorable Mayor, City Council and City Manager
City of Miami Gardens, Florida

We have audited the financial statements of the governmental activities and each major fund of the City of Miami Gardens, Florida (the City) as of and for the period from May 13, 2003 (inception) to September 30, 2003, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Report of Independent Certified Public Accountants on Compliance and on Internal Control over Financial Reporting. Disclosures in the report, which is dated October 6, 2004, should be considered in conjunction with this management letter.

In connection with our audit of basic financial statements of the City for the period from May 13, 2003 (inception) to September 30, 2003, we report the following in accordance with Chapter 10.550 Rules of the Auditor General, *Local Government Entity Audits*, which requires that this report specifically address but not be limited to the matters outlined in Rule 10.554(1)(g):

1. The City, during fiscal year 2003, was not in a state of financial emergency as defined by Florida Statutes 218.503(1).
2. During the course of our audit, nothing came to our attention that caused us to believe that the City:
 - a. Was in violation of any laws, rules or regulations and contractual provisions.
 - b. Made any illegal or improper expenditures.
 - c. Had improper or inadequate accounting procedures.
 - d. Failed to record financial transactions.
 - e. Had other inaccuracies, shortages, defalcations or instances of fraud.
3. The annual financial report for the period ended September 30, 2003 has been filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes and is in agreement with the audited financial statements for the period ended September 30, 2003.
4. The City was incorporated on May 13, 2003, under the Charter and Laws of Miami-Dade County. There were no component units related to the City.

Honorable Mayor, City Council and City Manager
City of Miami Gardens, Florida
Page Two

5. During the course of our audit, we applied financial condition assessment procedures pursuant to Rule 10.566(8). It is management's responsibility to monitor the City's financial condition, and our financial condition assessment, which was performed as of the City's period end, was based on representations made by management and the review of financial information provided by the City. There were no findings that identified deteriorating financial conditions.

This report is intended solely for the information and use of the Mayor, City Council, management, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Rachlin Cohen & Holtz LLP

Miami, Florida
October 6, 2004

CITY OF MIAMI GARDENS, FLORIDA

SCHEDULE OF FINDINGS

**FROM MAY 13, 2003 (INCEPTION)
TO SEPTEMBER 30, 2003**

03-1 Reporting Requirements in the State of Florida

Criteria/Condition

The City is required to submit the annual financial audit to the Auditor General and the Annual Financial Report to the Department of Financial Services within 45 days of completion of the audit, but no later than 12 months after fiscal year end.

Effect of the Deficiency

The City did not file its annual financial audit or its Annual Financial Report for the fiscal year ended September 30, 2003 with the Auditor General or the Department of Financial Services by September 30, 2004 and therefore was not in compliance with these reporting requirements.

Recommendation

We recommend that the City comply with the reporting requirements of the Auditor General and the Department of Financial Services.

Management Response

The City could not undertake the preparation of its financial statements until significant financial issues were resolved with Miami-Dade County. Had financial statements been prepared prior to settlement of those issues, it is certain that the City would have had to restate those financial statements. The issues were resolved in September 2004. Audit work began at about the same time and was completed in a timely manner thereafter. The City had little or not control over these events. This matter should not be repeated in any subsequent year.